

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 DODE-00 PM-04 H-01 /110 W

-----010821 086332 /14

R 010548Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6536

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMEMBASSY PARIS

AMEMBASSY BRUSSELS

USMISSION GENEVA

CINCPAC

C O N F I D E N T I A L MANILA 2997

CINCPAC ALSO FOR POLAD

E. O. 11652: GDS

TAGS: PORG, ASEAN, US

SUBJECT: US-ASEAN ECONOMIC CONSULTATIONS

REF: MANILA 2943

1. AS ANTICIPATED REFTTEL, I MET WITH FOREIGN SECRETARY ROMULO MORNING MARCH 1 ON ASEAN MATTERS. ROMULO TOLD ME THAT ASEAN FOREIGN MINISTERS' MEETING HAD REACTED POSITIVELY TO U.S. NOTE ON U.S.-ASEAN CONSULTATIONS. HE SAID IT HAD BEEN AGREED TO REFER APPROPRIATE ACTION TO FOREIGN MINISTER OF SINGAPORE AS CURRENT HEAD OF STANDING COMMITTEE.

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THEREFORE, FORMAL REPLY TO NOTE WILL BE MADE THROUGH HIM TO U.S. EMBASSY IN SINGAPORE.

2. ON MATTER OF U.S. TAX DEFERRALS, ROMULO HANDED ME AIDE-MEMOIRE WITH REQUEST THAT IT BE SENT TO DEPARTMENT OF STATE AND WITH FURTHER REQUEST THAT DEPARTMENT BRING IT TO ATTENTION OF APPROPRIATE COMMITTEES OF THE U.S. CONGRESS. HE

SAID A SIMILAR TEXT WOULD BE CONVEYED TO DEPT. BY PHIL
AMBASSADOR IN WASHINGTON.

3. TEXT OF AIDE-MEMOIRE FOLLOWS:

JOINT ASEAN AIDE MEMOIRE ON LIMITATION OF US TAX DEFERRAL
FOR FOREIGN INCOME OF US COMPANIES OVERSEAS

SINCE IT ORIGIN, THE TAX CODE OF THE UNITED STATES
HAS EMBODIED THE PRINCIPLE THAT INCOME OF FOREIGN AFFILIATES
OF AMERICAN COMPANIES INCORPORATED OVERSEAS WOULD NOT BE
SUBJECT TO US TAXES UNTIL THE INCOME IS REPATRIATED TO THE
UNITED STATES. HOWEVER, THERE HAVE BEEN RECENT ATTEMPTS
IN THE UNITED STATES TO ABOLISH COMPLETELY OR IMPOSE LIMITS
ON THE PRESENT SYSTEM OF FOREIGN TAX DEFERRAL. SUCH MEASURES
WOULD SERIOUSLY CURTAIL THE INFLOW OF AMERICAN INVESTMENTS
TO ASEAN AND WOULD BE DETRIMENTAL TO THE ECONOMIES OF
ASEAN COUNTRIES.

RECENT POLITICAL DEVELOPMENTS IN SOUTHEAST ASIA HAVE
MADE IT IMPERATIVE FOR ASEAN COUNTRIES TO SPEED UP THE PACE
OF ECONOMIC DEVELOPMENT. THIS HAS BEEN ACHIEVED PARTLY
THROUGH INDUSTRIAL DEVELOPMENT IN WHICH US INVESTMENTS AND
TECHNOLOGY HAVE PLAYED AN IMPORTANT AND POSITIVE ROLE. IN
1975, AMERICAN INVESTMENTS ACCOUNTED FOR ABOUT 25 PERCENT
OF TOTAL FOREIGN INVESTMENTS IN ASEAN COUNTRIES. TRADE
WITH UNITED STATES ALSO ACCOUNTED FOR A SIGNIFICANT 20
PERCENT OF ASEAN'S GLOBAL TRADE. THE CONTINUED INFLOW OF
AMERICAN INVESTMENTS IS THEREFORE CRUCIAL FOR THE ECONOMIC
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WELL-BEING AND STABILITY OF ASEAN. THIS IS ESPECIALLY SO
SINCE INDUSTRIES IN ASEAN ARE AT AN INFANT STAGE OF
DEVELOPMENT. TO ENABLE ASEAN TO ACHIEVE THE OBJECTIVES OF
HER ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMMES, INDUSTRI-
ALISATION IN ASEAN MUST NOT BE CURTAILED AT THIS CRUCIAL STAGE
OF ITS DEVELOPMENT.

LIMITS IMPOSED ON THE PRESENT SYSTEM OF FOREIGN TAX
DEFERRAL WOULD MAKE IT DIFFICULT FOR ASEAN TO PROMOTE US
INVESTMENTS TO THE REGION. AS IT IS, THE TAX REFORM ACT
OF 1976 HAS ALREADY REDUCED THE EARNED INCOME EXCLUSION
FOR US CITIZENS WORKING OVERSEAS, ABOLISHED THE FOREIGN
TAX CREDIT FOR INCOME FALLING UNDER THE EXCLUSION AND
TAXED INCOME ABOVE THE EXCLUDED AMOUNT AT THE HIGHER RATES
THAT WOULD APPLY IF THE EXCLUDED INCOME WAS SUBJECT TO
US TAXES. THIS WOULD INCREASE THE CORPORATE COST OF
FOREIGN AFFILIATES OF AMERICAN COMPANIES AND RETARD THE
PROCESS OF TRANSFER OF EXPERTISE AND TECHNOLOGY TO ASEAN.
FURTHER MOVES FOR TAX REFORMS IN THE US WHICH DISCOURAGE

THE OUTFLOW OF AMERICAN INVESTMENTS ARE THEREFORE VIEWED
WITH CONSIDERABLE ALARM BY THE ASEAN COUNTRIES.

THE IMPOSITION OF LIMITS ON THE EXISTING SYSTEM OF
FOREIGN TAX DEFERRAL IS NOT CONSISTENT WITH THE LONG
ESTABLISHED POLICY OF THE UNITED STATES TO ASSIST DEVELOPING
COUNTRIES. FURTHERMORE, IT WOULD BE CONTRARY TO THE
SPIRIT WITH WHICH CLOSER COOPERATION AND UNDERSTANDING
BETWEEN ASEAN AND THE UNITED STATES ARE BEING MUTUALLY
SOUGHT THROUGH, AMONG OTHERS, THE PROPOSED ESTABLISHMENT
OF AN ASEAN-US DIALOGUE.

THE ASEAN COUNTRIES, THEREFORE, STRONGLY URGE THE UNITED
STATES TO RETAIN THE PRESENT SYSTEM OF FOREIGN TAX
DEFERRAL FOR AMERICAN COMPANIES SITUATED IN THE REGION.
ASEAN COUNTRIES WOULD APPRECIATE IT IF THE UNITED STATES
WOULD DESIST FROM TAKING FURTHER MEASURES WHICH WOULD
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ADVERSELY PREJUDICE THEIR ECONOMIC WELL-BEING.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
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